

Supplementary Submission

By

Metro Tasmania Pty Ltd

To The

**Government Prices Oversight
Commission**

2003 Review Of

Metro's Pricing Policies.

April 2003

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1 INTRODUCTION

On 23 January Metro provided a preliminary submission to the Government Prices Oversight Commission's review of Metro's pricing policies.

The submission was incomplete in two respects:

- Metro was awaiting data from external sources to provide information about the differences in the populations of potential concession passengers between the urban bus operations of Metro and MerseyLink, and non-urban private bus operations; and
- Detailed information on the efficiency of Metro's operations, could not be provided until the results of a benchmark survey by consultants had been completed.

Metro has now obtained the additional information required to complete its submission to the GPOC review. This information is provided in the form of this "supplementary submission" to GPOC.

This supplementary submission has been prepared in anticipation that its contents will be made public. As a consequence material that is considered to be commercial-in-confidence has been separately provided the Commission on a commercial-in-confidence basis.

The material contained in this submission will be combined with Metro's preliminary submission to provide a consolidated final submission for reference purposes.

2 THE POPULATION OF POTENTIAL CONCESSION PASSENGERS

In Metro's preliminary submission information was presented regarding the differences in the definition of "adult concession passengers" between the urban service contracts of Metro and MerseyLink, and private bus operators receiving funding through the Government's fare top-up scheme.

Data has now been obtained from Centrelink to enable a more accurate measurement of these underlying populations, as shown in Table 2.1 below.

TABLE 2.1 - THE POPULATION OF POTENTIAL ADULT CONCESSION PASSENGERS

	Hobart ¹	Launceston	Burnie ²
Total persons	146,920	71,641	35,920
Concession Group A			
Age and Widow Pensioners	15,252	8,046	6,055
Health Care Cards (NS and YA)	7,416	4,048	2,790
Sub-Total Group A	22,668	12,094	8,845
Concession Group B			
Other Pension Cards	11,461	6,115	5,242
Other Health Care Cards	6,558	3,816	2,925
Veterans Affairs	4,588	2,257	1,313
Sub-Total Group B	22,607	12,188	9,480
Total Groups A + B	45,275	24,282	18,325
Group A as % of Popn.	15.4%	16.9%	24.6%
Total as % of Popn.	30.8%	33.9%	51.0%

Group A are the people who are eligible for adult concession travel on all regular passenger bus services in Tasmania, both Metro services and the private sector fare paying route services.

Group B are the people eligible for adult concession fares on Metro and MerseyLink services, but not on private sector fare paying route services.

¹ Hobart excludes Kingston and Blackmans Bay.

² Burnie includes Wynyard and Ulverstone.

3 EFFICIENCY OF METRO OPERATIONS

3.1 Introduction

In Metro's preliminary submission it was identified that Metro had engaged independent consultants to undertake a survey of Metro's operational efficiency by comparison to other urban bus operators elsewhere in Australia.

It was also identified that it was inappropriate, for reasons of commercial confidentiality, for this survey to also incorporate other Tasmanian based operators.

Any information required by GPOC relating to efficiency comparisons with Tasmanian based operators would need to be obtained by GPOC through the Department of Infrastructure, Energy & Resources.

The information presented in this section is provided on the basis of these constraints. More detailed information has been supplied to GPOC on a commercial-in-confidence basis to assist the Commission complete its review.

3.2 The Indec Survey

Metro engaged consultants *Indec Consulting* to undertake a detailed survey of Metro's costs by comparison to other urban bus operators on the Australian mainland.

In undertaking the survey Indec obtained detailed financial and operating information from all mainland public sector bus operators and 57 private sector bus operators³.

3.3 Basic Breakdown Of Costs

In its analysis Indec broke down costs of bus operators into four major components:

- Bus driving costs – primarily the direct wages associated with the driving of buses together with associated on-costs. These costs were analysed per bus-hour.
- Bus operating costs – primarily the costs associated with the operation and maintenance of buses including fuel, tyres, oil, repairs & maintenance, cleaning, and other similar bus operating expenses. These costs were analysed per bus-kilometre.

³ Surveys were sent to almost 100 operators. At the time of preparing the final Indec report to Metro results had been obtained from some 57 operators. It is anticipated that the number of responses may well increase through time. Indec have advised that any increase in sample size is not expected to alter the conclusions of the survey presented in their report.

- Bus overhead costs – including administration salaries and on-costs and other overhead costs. These costs were analysed per bus-hour.
- Bus capital costs – the depreciation, amortization and interest costs associated with vehicles.

Operating and capital returns were identified as the difference between revenues and costs. Comparisons on the basis of the above cost components has been designed to enable direct comparison with Metro, despite Metro's contract payments being determined on the basis of a break-even financial result.

In making comparisons between mainland and Metro costs a number of adjustments and assumptions were made to enable comparisons on a like basis. A particular adjustment was to include the price of fuel (net of GST but before deduction of any Commonwealth rebate), and to separately identify Commonwealth fuel rebates as a revenue item⁴.

3.4 Comparisons With Other Public Sector Operators

Indec surveyed all 6 remaining public sector bus operators in Australia – Metro, Brisbane Transport, State Transit Authority (Sydney), State Transit Authority (Newcastle), ACTION and Darwin Bus Service.

The survey results indicated that Metro was the most efficient public sector bus operator in Australia, as is illustrated in Figures 3.1 to 3.3.

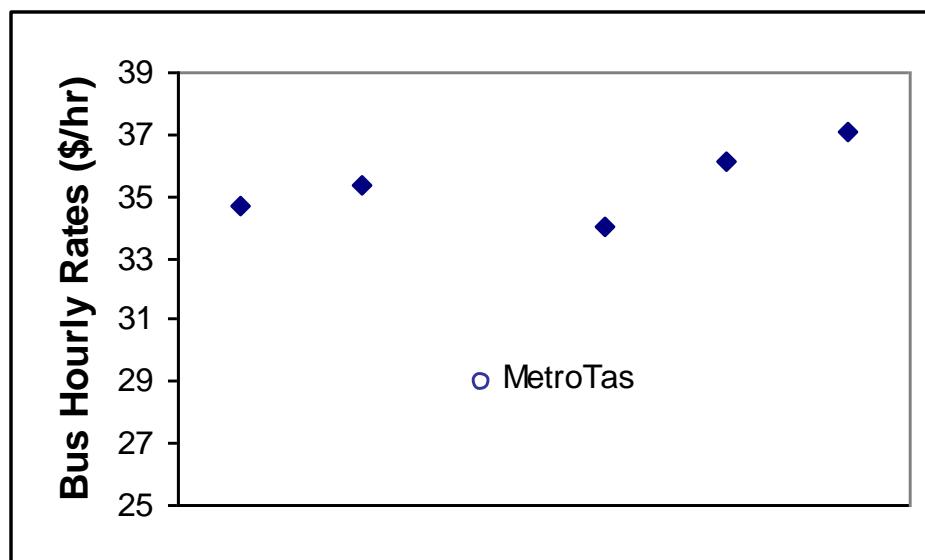


Figure 3.1: Comparison Of Public Operator - Driving Costs - June 2002.

⁴ The Diesel and Alternative Fuel Grant (DAFG) is provided to transport operators outside the major metropolitan areas. For the purposes of the DAFG the whole of Tasmania is considered to be outside the major urban areas, and thus subject to the 18.51 c/l fuel rebate. For the Indec survey the DAFG is not deducted from the price of fuel; rather DAFG rebates are included as a revenue item. This enables direct comparison in relation to costs.

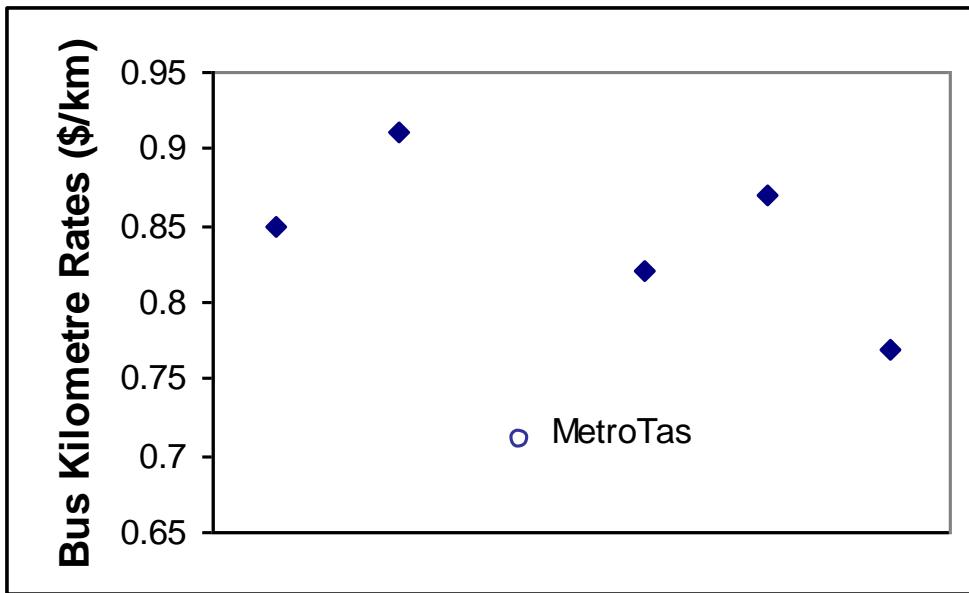


Figure 3.2: Comparison Of Public Operator - Operating Costs - June 2002.

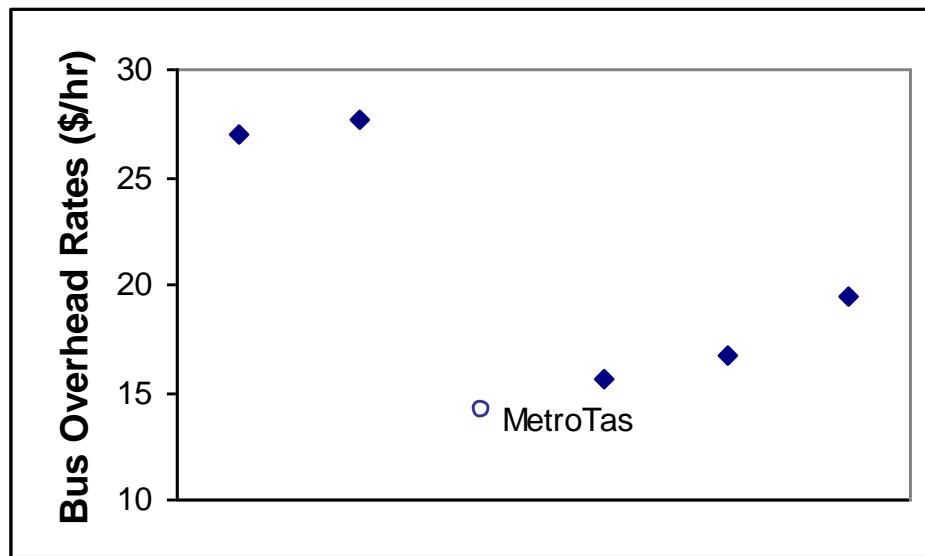


Figure 3.3: Comparison Of Public Operator - Overhead Costs - June 2002.

3.5 Comparisons With Private Operators – Mainland Australia.

Indec have been able to survey some 57 mainland urban public transport operators and in so doing obtain a statistically reliable comparison between Metro's costs and those of mainland private sector bus operators.

The overall conclusion of this comparison is that Metro's costs are in line with average private sector costs, as illustrated in figures 3.4 to 3.6 below.

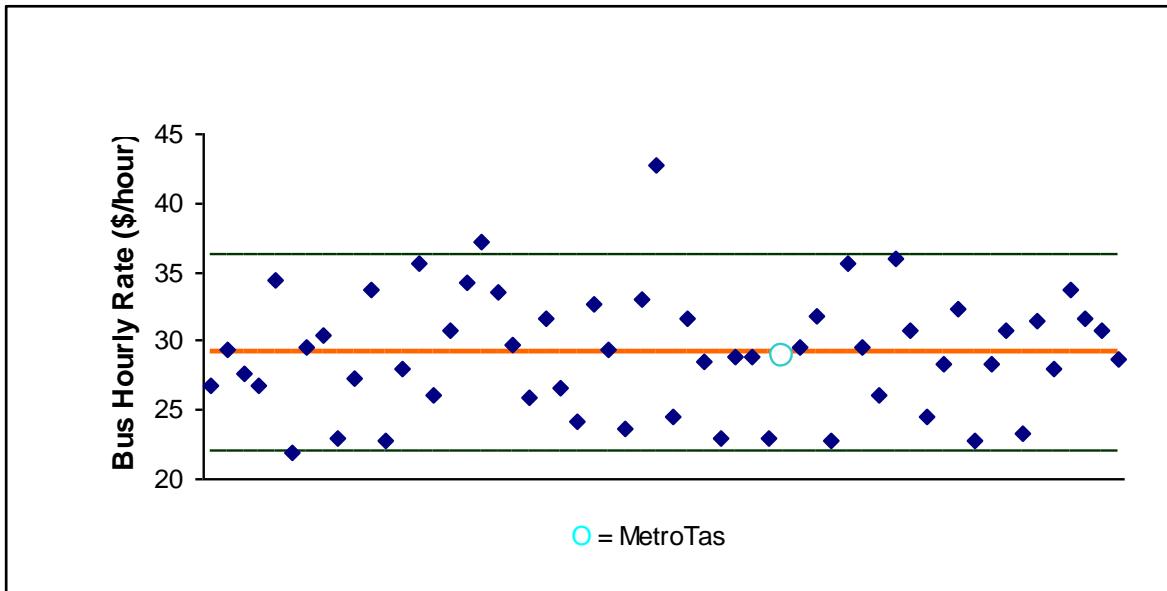


Figure 3.4: Comparison With Private Operators - Driving Costs - June 2002.

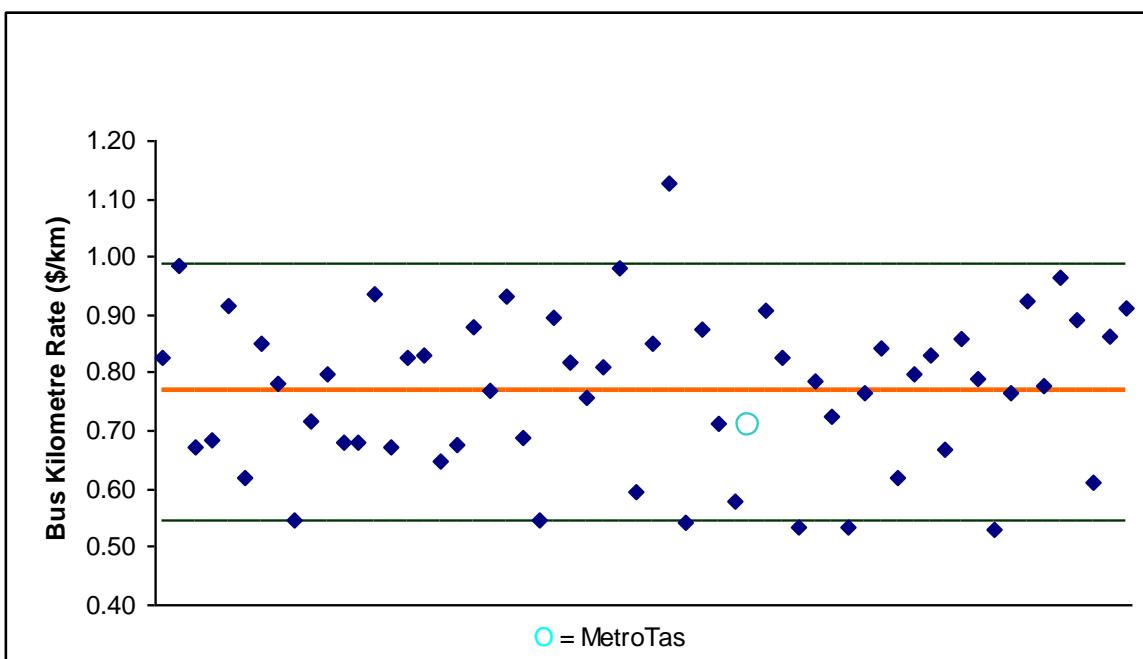


Figure 3.5: Comparison With Private Operators – Operating Costs - June 2002.

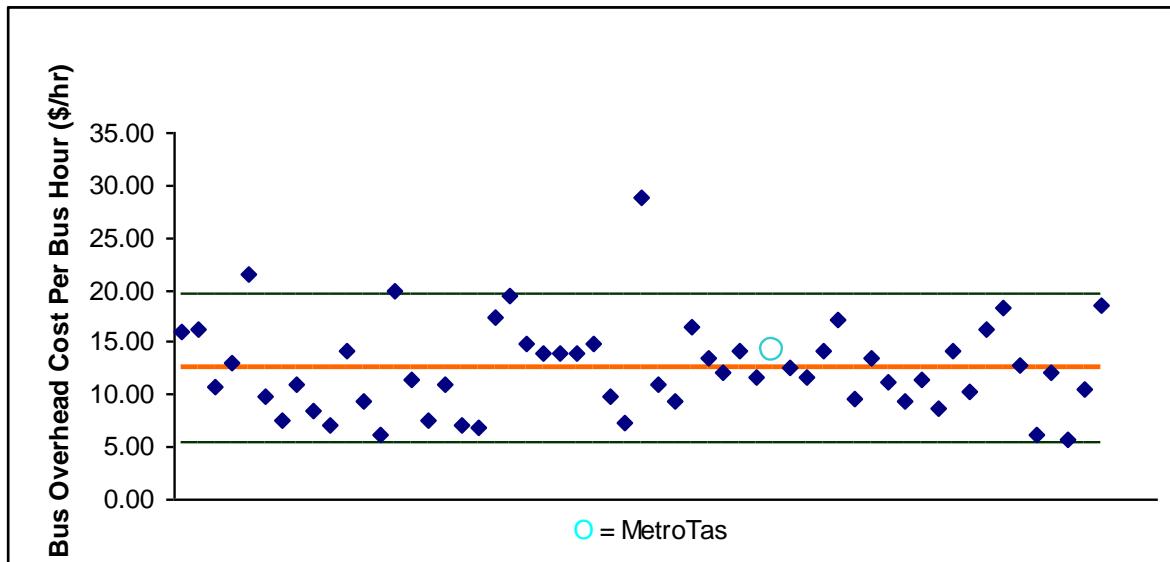


Figure 3.6: Comparison With Private Operators - Overhead Costs - June 2002.

Care needs to be taken with these comparisons.

The data has not been adjusted for differences in the nature of the bus operations that are being undertaken. For example, Metro's operations involve a significant amount of operation in hilly environments, and the operational peaks are normally shorter and sharper than for the larger mainland urban areas.

As a consequence a mainland bus operation in flatter terrain and which involves a higher level of vehicle utilisation due to a more spread out peak period, will exhibit lower unit costs than Metro (all other things being equal).

3.6 “Best Practice” Operator Comparisons

In order to look at what the Government might pay for the purchase of urban bus services Metro asked Indec to develop estimates of best practice operator costs on an “equivalent operation” basis.

Metro also asked Indec to identify what the additional costs to Government might be to provide an adequate commercial return for the private sector “best practice” operator.

Indec made a number of adjustments to ensure that comparisons for this section were as consistent as possible with the type of operation that Metro delivers.

In particular this required adjustments for:

- a lower than normal level of charter operations; and
- shorter-sharper peak periods.

Indec's conclusions were that:

- Metro's operating expenditure in 2001/02 was \$28.97M⁵
- A best practice private operator would have achieved an expenditure (before commercial returns added) of \$28.86M – a potential saving of \$108,000.
- A best practice commercial operator would require a commercial return of \$2.22M.
- The overall increase in Government contract payments would be \$1.7M.

In 2001/02, Metro made an operating profit of \$409,000 in 2001/02, with \$286,000 paid to Government as a dividend to Government and the balance retained by the company. This would need to be taken into account when determining the overall change in the net cost to Government.

⁵ After adjustment for fuel rebates.

4 SUMMARY AND CONCLUSIONS

The overall conclusion from this supplementary submission is that:

- Metro is the most efficient public sector bus operator in Australia
- Metro's costs are equivalent to average private sector mainland urban bus operator costs.
- On an equivalent service profile basis Metro's costs are only 0.4% higher than a "best practice" private sector mainland urban bus operator.
- When the normal commercial returns are taken into account there would be an additional cost to Government of about \$2M if urban bus services in Hobart, Launceston and Burnie were purchased from a private sector bus operator, operating in line with mainland urban best practice conditions.